TOROMONT

Annual Report 1975

TOROMONT INDUSTRIES LTD.
Subsidiary Companies

Industrial Refrigeration
CIMCO Limited
Allen Tank Limited
Happy Air Exchangers (Canada) Limited
Lewis Refrigeration Co.

Engineered Products
El-Met-Parts Division
Viking Pump Company of Canada, Limited

Building Products
Lloyd-Truax Limited
F. B. McFarren, Limited

Head Office
65 Villiers Street
Toronto, Ontario
M5A 3S1

Auditors
Touche Ross & Co.
Chartered Accountants

Bankers
The Mercantile Bank of Canada, Toronto
The Toronto-Dominion Bank, Toronto

Common Shares
Listed on
The Toronto Stock Exchange
Montreal Stock Exchange

Fiscal Agent
McLeod, Young, Weir & Company Limited

General Counsel
Blake, Cassels & Graydon, Toronto
In the United States:
Miller, Anderson, Nash, Yerke & Wiener,
Portland, Oregon.

Transfer Agent and Registrar
Crown Trust Co.
Toronto and Montreal

TOROMONT
INDUSTRIES LTD.

INTERIM REPORT
TO SHAREHOLDERS
SIX MONTHS ENDED JUNE 30, 1975

To the Shareholders

Financial

Your company announced on August 18th that it had signed an agreement to sell its wholly owned subsidiary, Clare Brothers Limited. A copy of the press release announcing this sale is enclosed.

As this sale was effective from January 1 of this year, the sales and operating results of Clare have been excluded from the Toromont results for the first six months of 1975.

On a comparative basis for continuing operations (excluding Clare), sales of $24.5 million were virtually unchanged from 1974. However, net profits on the same basis decreased from $634,000 in 1974 to $400,000 or a decrease of about 37%.

Our companies continued to hold their market positions, but the margins showed a significant decrease starting in the second quarter. This was caused by reduced demand together with rising wage costs which are exerting considerable downward pressure on profit margins.

Lawsuit

During the second quarter, Toromont's action against Thorne, Gunn, Helliwell & Christenson ("Thornes") claiming $3,500,000 damages in connection with the acquisition of CIMCO Limited was dismissed without costs by the Supreme Court of Ontario. The trial judge held Thornes was negligent in the conduct of the audit of CIMCO Limited for the years ended December 31, 1968 and December 31, 1969; however, accepting opinion evidence adduced on behalf of the defendant auditors respecting the propriety of the accounting treatment accorded to certain significant contracts, he concluded that the financial statements for the year ended December 31, 1968 did in fact reflect the true financial position of CIMCO Limited at the time.

CIMCO Limited recovered damages of $7,967.00, incurred by reason of an overstatement of income for the year ended December 31, 1969, and costs fixed at 25% of the total costs of the action.

On the advice of counsel, an appeal has been taken from the trial judge's decision. It is anticipated that the appeal will be heard toward the end of this year.

Expansion

An additional 25,000 square foot facility is under construction at El-Met-Parts. This plant will house a new operation to slit electrical grade steels, which until now has been performed by outside suppliers. This facility, together with the additional warehouse space, will permit El-Met-Parts to enter into the marketing and distribution of electrical grade steels. In addition to improving El-Met's marketing position, this integration will result in significant cost reduction and increased sales and profits.

Organization

We are pleased to announce the following senior appointments to the Toromont Head Office staff:

Mr. Lawrence Fagan to the position of Vice-President, Finance — Mr. Fagan currently is a vice-president with Standard Research Consultants of New York. Mr. Fagan has extensive financial and investment experience in the U.S. In addition, he has specialized experience in the merger and acquisition field.

Mr. David Sheperd to the position of Vice-President, Operations — Mr. Sheperd will be assigned line responsibilities for one or more of our companies. Mr. Sheperd has considerable operating experience both in Canada and abroad and was for some time President of Corning Glass of Canada and Chairman of Corning Glass of Australia.

The addition of these senior personnel augments our management resources and should permit Toromont to mount the expansion and acquisition program for which adequate bank lines have already been established.

Future Prospects

The continuing worldwide recession has now proved to be the most severe since 1945. There is, as yet, no clear evidence of any significant upturn in the business cycle and inflation continues to threaten the long term economic prospects. Under these circumstances, it is difficult to assess the future. However, we believe our profits for the full year 1975 will amount to approximately $1.5 million or 32¢ per share, compared with $2,038,000 or 44¢ per share in 1974. This forecast for 1975 does not include any inventory profits resulting from inflationary price increases similar to the $225,000 (5¢ per share) included in our 1974 results. If present trends continue this will be the first year since 1970 that our earnings have turned down. We believe that Toromont's operations are soundly based and despite the current economic climate, we are confident that 1976 will see a resumption of our profitable long term growth trend.

S. J. Sinclair
Chairman of the Board

R. A. Scoon
President

August 20, 1975

TOROMONT
INDUSTRIES LTD.

AUG 25 1975

PRESS RELEASE

Toromont Industries Ltd. announced today that an agreement has been signed to sell its wholly owned subsidiary, Clare Brothers Limited, to Canadian interests. In connection with this sale, Toromont will receive $1,190,000 of which $890,000 will be received on closing and the balance will be paid over seventeen months.

The consideration for this transaction equals Toromont's current investment in Clare, so there is no profit or loss; however, as a result of this transaction, bank borrowings will be reduced by $500,000 and thus effect an immediate improvement in Toromont's cash position of approximately $1,390,000.

While Clare has been profitable in recent years — in 1974 its net after tax earnings totalled $147,000 — results this year have been disappointing partly because of the downturn in the economy and also as a result of an eight week strike. Clare manufactures gas and oil heating equipment and distributes home air conditioning units.

The purchasers are W. A. Smith and J. R. Pearce of Toronto. Mr. Smith is currently Vice-President, Finance of Toromont, a position he has held since August 1, 1974. This transaction has

from Toromont to assume the presidency of Clare.

This divestiture is a further step in a program to rationalize Toromont's operations and to concentrate its activities in more promising growth areas.

65 Villiers Street, Toronto, Ontario M5A 3S1 • Telephone 416-465-3518

AUG 25 1975

TOROMONT
INDUSTRIES LTD.

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OROMONT INDUSTRIES LTD.
nd Subsidiaries

ONSOLIDATED STATEMENT OF EARNINGS ND RETAINED EARNINGS

r the Six Months ended June 30, 1975
ith comparative figures for 1974)

	$000's	
NAUDITED	1975	1974
ales:		
Continuing Operations		
Industrial Refrigeration	$16,113	$14,848
Engineered Products	4,330	4,625
Building Products	4,134	4,782
	24,577	24,255
Discontinued operations (note 2)	—	1,839
	$24,577	$26,094
arnings from continuing operations before undernoted items	$ 644	$ 1,191
Provision for income taxes	239	552
Provision for minority interest in earnings of subsidiaries	5	5
et earnings for the period	400	634
iscontinued operations (note 2)		
Net earnings of Clare Brothers Limited	—	31
et earnings for the period	400	665
etained earnings beginning of period	4,270	2,736
ividends declared — preferred	29	29
— common	237	223
etained earnings end of period	$ 4,404	$ 3,149
arnings per common share (note 1)	8.3c	14.3c

ote 1: Based on 4,466,769 common shares outstanding after provision for the preferred dividends.

ote 2: These financial statements give effect to the disposal of the company's investment in shares of its wholly owned subsidiary, Clare Brothers Limited, as of January 1, 1975. The 1974 figures have been restated to segregate the operating results of Clare Brothers Limited for comparative purposes.

TOROMONT INDUSTRIES LTD.
and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the Six Months ended June 30, 1975
(with comparative figures for 1974)

	$000's	
UNAUDITED	1975	1974
Source of funds		
From operations:		
Net earnings for the period	$ 400	$ 665
Adjustments for charges not involving funds:		
Depreciation and amortization	259	236
Deferred income taxes	100	18
Income tax recoveries applied against goodwill	—	37
	759	956
Increase in long term debt	—	543
Disposal of subsidiary (note 2)		
Proceeds on disposal of subsidiary	965	
Less: Working capital of subsidiary	492	
	473	—
Sundry items	—	49
	1,232	1,548
Application of funds		
Additions to fixed assets	394	266
Acquisition of additional shares of a subsidiary	—	80
Goodwill on acquisition of subsidiaries	—	24
Dividends declared	266	252
Redemption of preference shares of a subsidiary	18	18
	678	640
Increase in working capital	554	908
Working capital beginning of period	6,134	5,227
Working capital end of period	$ 6,688	$ 6,135

TOROMONT INDUSTRIES LTD.
and Subsidiaries

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

for the Twelve Months ended June 30, 1975
(with comparative figures for 1974)

	$000's	
UNAUDITED	1975	1974
Sales:		
Continuing Operations		
Industrial Refrigeration	$35,605	$28,212
Engineered Products	8,740	9,038
Building Products	8,221	9,459
	52,566	46,709
Discontinued operations (note 2)	1,753	3,916
	$54,319	$50,625
Earnings from continuing operations before undernoted items	$ 3,005	$ 2,839
Provision for income taxes	1,338	1,213
Provision for minority interest in earnings of subsidiaries	10	14
Net earnings from continuing operations	1,657	1,612
Discontinued operations (note 2)		
Net earnings of Clare Brothers Limited	116	192
Net earnings for the period	1,773	1,804
Retained earnings beginning of period	3,149	1,849
Dividends declared — preferred	58	58
— common	460	446
Retained earnings end of period	$ 4,404	$ 3,149
Earnings per common share	38.3c	39.5c

The financial year end is December 31.

TOROMONT INDUSTRIES LTD.

NOTICE OF ANNUAL AND SPECIAL GENERAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual and a Special General Meeting of the Shareholders of Toromont Industries Ltd. (hereinafter called the "Company") will be held in the Confederation Room, Royal York Hotel, Toronto, Ontario, on the 11th day of April, 1975 at the hour of 11:00 a.m., for the following purposes:

(a) To receive the report of the Directors and to receive and, if thought fit, approve the consolidated financial statements of the Company and its subsidiary companies for the fiscal year ended December 31, 1974 together with the report of the auditors thereon:

(b) To consider and, if thought fit, sanction, with or without variation, By-Law No. 19 of the Company being a by-law increasing by 125,000 the number of common shares in the capital stock of the Company reserved for issue under the Company's Incentive Stock Purchase Plan;

(c) To elect directors;

(d) To appoint auditors and to authorize the directors to fix their remuneration; and,

(e) To transact such other business as may properly come before the meeting or any adjournment thereof.

DATED at Toronto, Ontario, this 12th day of March, 1975.

By order of the Board of Directors.

W. A. SMITH
Secretary

NOTE:

If you are unable to attend the meeting in person please date and sign the enclosed form of proxy and return it in the envelope provided for that purpose.

A copy of the Annual Report which contains the consolidated financial statements of the Company and its subsidiaries for the year ended December 31, 1974; a copy of an information circular and a form of proxy accompany this notice.

TOROMONT INDUSTRIES LTD.

INFORMATION CIRCULAR

SOLICITATION OF PROXIES

This Information Circular is furnished in connection with the solicitation of proxies by the management of Toromont Industries Ltd. (the "Company") for use at the Annual and a Special General Meeting of Shareholders of the Company to be held at the time and place and for the purposes set forth in the notice of meeting and at any adjournment or adjournments thereof. The solicitation will be primarily by mail, but proxies may also be solicited personally by regular employees of the Company. The cost of solicitation by management will be borne by the Company.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are directors of the Company. A SHAREHOLDER DESIRING TO APPOINT SOME OTHER PERSON TO REPRESENT HIM AT THE MEETING MAY DO SO by inserting such person's name in the blank space provided in the form of proxy and striking out the names of the three specified persons or by completing another proper form of proxy and, in either case, delivering the completed proxy to the Secretary of the Company at least 48 hours before the time of the meeting.

A shareholder who has given a proxy may revoke it, as to any motion on which a vote has not already been cast pursuant to the authority conferred by it, by an instrument in writing executed by the shareholder or by his attorney authorized in writing, or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the head office of the Company on or before the day preceding the day of the meeting or adjournment thereof at which the proxy is to be used, or with the Chairman of such meeting on the day of the meeting or adjournment thereof.

EXERCISE OF DISCRETION BY PROXIES

The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. In the absence of such direction **SUCH SHARES WILL BE VOTED FOR THE SANCTION OF BY-LAW NO. 19; FOR THE APPROVAL OF THE FINANCIAL STATEMENTS AND THE AUDITORS' REPORT THEREON AND FOR THE ELECTION OF DIRECTORS AND THE APPOINTMENT OF AUDITORS AS STATED UNDER THOSE HEADINGS IN THIS CIRCULAR OR WITHHELD FROM VOTING IF SO INDICATED ON THE FORM OF PROXY. The enclosed form of proxy confers discretionary authority** upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting and with respect to other matters which may properly come before the meeting. At the time of printing this circular the management of the Company knows of no such amendments, variations or other matters to come before the meeting other than the matters referred to in the notice of meeting.

VOTING SHARES

The Company has outstanding 4,466,519 common shares without par value and each of such shares carries the right to one vote at the meeting. To the knowledge of the directors and officers of the Company, no person owns more than 10% of the Company's voting shares, except as stated below.

GBC Capital Limited and Dominion Scottish Investments Ltd. a company in which GBC Capital Limited owns in excess of 97% of the outstanding common shares, hold a total of 918,210 shares in the capital stock of the Company representing 20.6% of the outstanding shares. Mr. N. B. Ivory, a director of the Company, is an officer and director of GBC Capital Limited and Dominion Scottish Investments Ltd.

BY-LAW NO. 19

The special purpose for which this meeting is called is to consider, and if thought fit, to sanction, with or without variation, By-Law No. 19 passed by the directors on March 5, 1975.

By-Law No. 19 increases by 125,000 the number of common shares in the capital stock of the Company reserved for issue under the Company's Incentive Stock Purchase Plan.

The above description of By-Law No. 19 does not purport to be complete and reference is made to the complete text of the said by-law which will be available at the meeting.

ELECTION OF DIRECTORS

The Board consists of eleven directors of whom six constitute a quorum. The persons named in the enclosed form of proxy intend to vote for the election of the nominees whose names are listed below. The management is not presently aware that any such nominee would be unwilling to serve as a director if elected. In the event that prior to the meeting any vacancies occur in the slate of nominees listed below the persons named in the enclosed form of proxy reserve the right to vote in their discretion for other nominees as directors. Each director elected will hold office until the next Annual Meeting and until his successor is duly elected, unless his office is earlier vacated in accordance with the by-laws.

The following table sets out the name of each of the persons proposed to be nominated for election as a director of the Company; all positions and offices in the Company now held by him, his principal occupation, the year in which he was first elected a director, and the approximate number of shares of each class of equity shares of the Company that he has advised are benefically owned by him, directly or indirectly.

Name and principal occupation	Year first became a director	Common shares beneficially owned directly or indirectly
P. F. Fenton, Jr., Boston, Mass. Chairman, Studley, Shupert & Co., Inc.	1973	900
D. E. Gillespie, Los Angeles, Ca. Chief Executive Officer, Glaser Brothers	1972	23,000
N. B. Ivory, Montreal President, Pembroke Management Ltd.	1974	100
B. B. Lockwood, Toronto Partner of Blake, Cassels & Graydon	1971	10,100
A. Marcil, Montreal President, Marcil Mortgage Corporation	1965	20,500
W. A. McKenzie, London, Ont. President, Admac Holdings Ltd.	1973	45,000
S. R. Rudd, Toronto President, HCR Adviser Ltd., Adviser to Heitman Canadian Realty Investors	1974	500
R. A. Scoon, Toronto President of the Company	1971	163,000
R. A. Sinclair, Columbus, Ga. Consultant	1973	4,100
S. J. Sinclair, Toronto Chairman of the Board of Directors and Chief Executive Officer of the Company	1969	434,200
N. G. Van Nest, Toronto Consultant	1969	75,000

REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

During the fiscal year ended December 31, 1974 the aggregate remuneration paid by the Company:

(a) to the directors of the Company as such was $12,000, and

(b) to the officers of the Company as such was $262,000

No remuneration was paid or payable by the subsidiaries of the Company to any such directors or officers.

The estimated aggregate cost to the Company in 1974 of all retirement benefits proposed to be paid in the event of retirement at normal retirement age by the Company to the directors and officers of the Company was $10,400.

INCENTIVE STOCK PURCHASE PLAN

During 1974, the right to purchase 12,500 common shares in the capital stock of the Company was granted to senior officers of the Company and subsidiary companies.

Details of the shares purchased under the Incentive Stock Purchase Plan during the past year by such officers of the Company and its subsidiaries are as follows:

Date right to purchase was granted and exercised	Number of Shares Purchased By Officers of the Company or its subsidiaries.	Price per Share	Price range of shares on Toronto Stock Exchange in 30 day period preceding granting of option
April 5, 1974	2,500	$3.10	$2.30—$3.20
November 14, 1974	10,000	$2.00	$1.99—$2.40

APPOINTMENT OF AUDITORS

The persons named in the enclosed form of proxy intend to vote for the reappointment of Messrs. Touche Ross & Co. Chartered Accountants, Toronto, Ontario, who have been auditors of the Company for more than five years, as auditors of the Company to hold office until the next Annual Meeting of Shareholders.

Dated as of March 12th, 1975.

TOROMONT

INDUSTRIES LTD.

Head Office: Toronto, Canada
Phone (416) 465-3518

Financial Highlights

	1975	1974
Sales		
Industrial Refrigeration	**$35,221,000**	$34,340,000
Engineered Products	**13,721,000**	9,035,000
Building Products	**1,295,000**	1,264,000
	50,237,000	44,639,000
Net Earnings from Continuing Operations	**1,463,000**	1,885,000
Discontinued Subsidiary Operations		
Net Earnings	**37,000**	153,000
Gain on Sale of Subsidiaries	**668,000**	—
Net Earnings for the Year	**2,168,000**	2,038,000
Per Share of Common Stock		
Earnings from Continuing Operations	**30.7¢**	40.9¢
From Discontinued Operations		
Net Earnings	**.8¢**	3.4¢
Gain on Sale of Subsidiaries	**14.3¢**	—
Net Earnings	**45.8¢**	44.3¢
Dividends	**10¢**	10¢
Equity	**$2.87**	$2.46
Working Capital	**$ 8,115,000**	$ 6,134,000
Return on Common Shareholders' Equity	**13.0%**	19.3%

Toromont has extensive manufacturing operations in Canada and the United States and sells to international markets. The major area of operation is the industrial refrigeration field. Four of the Company's operating units, CIMCO, Lewis Refrigeration, Allen Tank and Happy Air Exchangers, serve the refrigeration engineering, contracting and equipment requirements of the food processing, petrochemical and recreation industries – all markets with favourable long-term prospects.

The Annual Meeting of the Shareholders of the Company will be held in the Confederation Room of the Royal York Hotel, Toronto, at 11:00 a.m. on May 21, 1976.

TOROMONT

INDUSTRIES LTD.

and subsidiaries

To our Shareholders

1975 was a difficult and disappointing year for your company. The recession in North America had a serious impact on both our Canadian and U.S. operations and as a result our earnings turned down for the first time in five years. The food processing market in the United States was particularly poor and this had a severe impact on the results of the company's United States subsidiary, Lewis Refrigeration Co.

In 1975, however, several important moves were made to strengthen our operations and provide a more solid base for long term growth. We disposed of two of our subsidiaries because they did not meet our minimum standards for return on investment and did not fit Toromont's plans for future growth. We acquired Canada Forgings Limited which we believe has a strong potential for long term growth. We effected an increase in working capital of about $2 million and Toromont presents the strongest balance sheet in its history with working capital in excess of $8 million.

Financial

In 1975, Toromont's sales were $50,237,000, net earnings from continuing operations were $1,463,000 or 30.7¢ per share and net earnings for the year were $2,168,000 or 45.8¢ per share. The comparative figures for 1974 were sales of $44,639,000, net earnings from continuing operations of $1,885,000 or 40.9¢ per share, and net earnings for the year of $2,038,000 or 44.3¢ per share. The 1975 net earnings for the year include earnings from discontinued operations of $37,000 or 0.8¢ per share and gain on sale of discontinued operations of $668,000 or 14.3¢ per share. The 1974 net earnings for the year include $153,000 or 3.4¢ per share from discontinued operations.

Sale of Companies

We sold our subsidiaries, Clare Brothers Limited, a manufacturer of gas and oil furnaces, and Lloyd-Truax Limited, a manufacturer of wooden doors. Both companies were in highly competitive industries and were unable to show a satisfactory return on our investment. Favourable prices were obtained on both sales and the gain on the sale of subsidiaries, including the liquidation of an investment related to a previously sold subsidiary, was $668,000 or 14.3¢ per share. The sale of Lloyd-Truax and Clare Brothers also improved the company's working capital position as both entities had substantial short term bank debt.

At year end 1975, Toromont's current assets were $21.9 million and current liabilities were $13.8 million – the comparative figures at the end of 1974 were $21.2 million and $15.1 million, respectively. Working capital at the end of 1975 was $8.1 million, an increase of approximately $2 million over 1974.

Acquisition

Another significant move made in 1975 was the acquisition of substantially all the common stock of Canada Forgings Limited through a public tender. CanForge has two plants, both located in Welland, Ontario. Products manufactured include weldless rings and flanges, end fittings, shafts, hooks and aircraft and auto parts.

CanForge's marketing efforts have been aimed particularly at the nuclear and other energy related fields where the company's blend of specialized know-how, unusual equipment capabilities and a reputation for quality and reliability have given it a unique competitive position.

CanForge did a volume of approximately $12.5 million in 1975. Toromont's purchase price for the shares was $3.1 million and the Toromont 1975 operating results include CanForge's results from September 1, 1975.

Looking Ahead

While the economies of Canada and the United States are showing definite recovery from the recent recessions, spending on capital goods is lagging and weak conditions still exist in major sectors of the industrial refrigeration market. The company's United States subsidiary, Lewis Refrigeration Co., was only nominally profitable in 1975 and we have undertaken major cost cutting measures to adjust Lewis' operations to the depressed condition of its markets. We have made a good deal of progress in integrating the organizations and operations of our two industrial refrigeration subsidiaries, CIMCO in Canada and Lewis in the United States, into a single operating unit and as a result have effected further significant reductions in overhead.

Lewis continues to be a leader in the technology of industrial refrigeration, particularly in the food processing sector and is positioned to contribute significant profits to our company as soon as its markets begin to recover.

In Canada, we are seeing some pickup in the food and beverage and petrochemical markets for industrial refrigeration contracting which should benefit CIMCO's operation in 1976. In 1975, CIMCO had a satisfactory year primarily because of the strength in the recreational market for ice rinks and results should improve this year with the expected improvement in other industrial market sectors.

CIMCO's subsidiaries, Allen Tank Limited, a manufacturer of pressure vessels, and Happy Air Exchangers, a manufacturer of heat exchangers, had excellent years in 1975 because of strength in the chemical processing markets and both are expected to show good results this year as well. Allen Tank is currently embarked on a $700,000 plant expansion program which will increase its capacity by 50%.

In the engineered products area, El-Met-Parts, a manufacturer of steel laminations, and Viking Pump Company showed substantially reduced profits in 1975 because of economic conditions but are expected to show marked profit improvements in 1976. The engineered products area in 1976 will benefit from the inclusion of a full year's operating results of our newly acquired subsidiary, Canada Forgings Limited. CanForge's operations will be affected this year by the recent cutbacks and deferrals in major utility projects but nevertheless, should contribute significantly to our profits.

In the building products area, we expect our subsidiary, F. B. McFarren Limited, a manufacturer of burned clay bricks, which had an increase in profits last year in spite of adverse industry conditions, to achieve an increase in profits again this year.

The outlook for 1976 contains many uncertainties. In addition to the continuing weakness in capital goods markets, the recent anti-inflation controls may have a negative impact on our Canadian operations in ways that cannot be accurately forecast at this time. Despite these uncertainties, however, we expect that overall 1976 will be a satisfactory year for Toromont.

Toromont now has a net worth of approximately $14,000,000, a strong balance sheet with working capital in excess of $8,000,000, and substantial unused bank lines. This financial position provides a strong base for expansion of our present operations and by acquisition. We continue to search for acquisitions with particular interest in the United States.

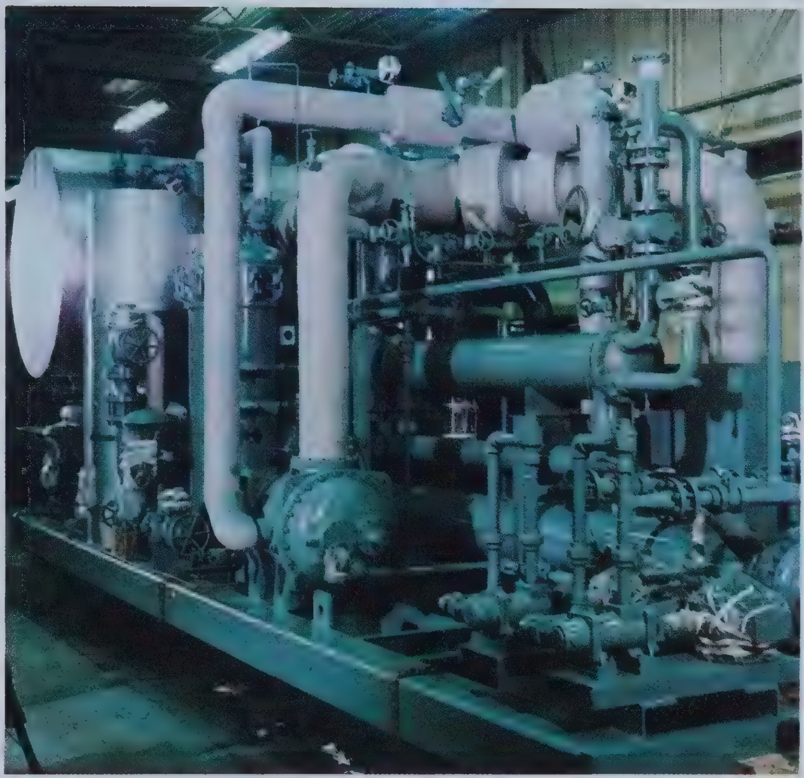
Mr. S. R. Rudd, a director since 1974 and Mr. R. A. Sinclair, a director since 1973, are not standing for re-election at the annual meeting. Their help and advice have been most valuable to the company.

We appreciate the support and cooperation we continue to receive from our customers, suppliers, employees and shareholders.

S. J. Sinclair
Chairman of the Board

R. A. Scoon
President

April 21, 1976



Ammonia absorption system used for treating denim to make it softer and longer wearing. Several such units were designed and manufactured last year by Toromont's industrial refrigeration group.

Review of Operations

Toromont's industrial refrigeration operations specialize in the design, manufacture, installation and servicing of refrigeration systems for the food processing, petrochemical and recreational industries. The company's Canadian subsidiary, CIMCO, is the dominant entity in its markets, the most important of which have been ice rinks and refrigeration systems for food and beverage processing and storage. Toromont's U.S. subsidiary, Lewis Refrigeration Co., has been the pioneer and leader in I.Q.F. (Individually Quick Frozen) systems for food processing and also serves the food storage and petrochemical markets.

In 1975, most sectors of the industrial refrigeration market were weak in both Canada and the U.S. In Canada, substantial ice rink business enabled CIMCO to show satisfactory operating results. However, in the U.S., Lewis was able to show only nominal profits because of general weakness in its markets, particularly food processing. Major cost cutting measures, including the closing of the Houston plant and the Atlanta, Tulsa and Portland offices, were made by Lewis to adjust to the changed market conditions.

This year we expect to see a general improvement in the industrial refrigeration markets in both Canada and the U.S.

Ring Rolling Machine rolling a blank into a ring. (CanForge)

Industrial Refrigeration

Cimco Limited
Halifax, Nova Scotia
Montreal, Quebec
Ottawa, Ontario
Toronto, Ontario
London, Ontario
Winnipeg, Manitoba
Regina, Saskatchewan
Saskatoon, Saskatchewan
Calgary, Alberta
Edmonton, Alberta
Vancouver, British Columbia

Allen Tank Limited
London, Ontario
Scarborough, Ontario

Happy Air Exchangers (Canada) Ltd.
London, Ontario

Ideal Welding
Scarborough, Ontario

Lewis Refrigeration Co.
Houston, Texas
Los Angeles, California
Malden, Massachusetts
Woodinville, Washington
Norwich, England
Richmond, British Columbia

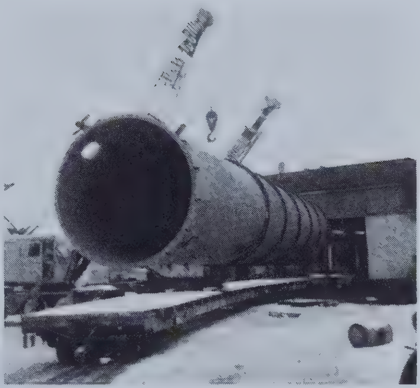
Crew of 10,000 lb. Steam Hammer forging an aircraft engine component. (CanForge)

14′ diameter aluminum silo for blending polyethylene. (Happy Air Exchangers)

While in Canada the recreational market may be less robust, the expected improvement in the food and beverage market should permit CIMCO to show improved results this year. In the United States, Lewis retains its technological lead in the food processing field and is positioned to make a significant contribution to our earnings as soon as its markets recover.

Allen Tank Limited fabricates steel pressure vessels and tanks for the chemical, petrochemical and food processing industries. Last year, chemical and petrochemical markets were strong and Allen Tank showed excellent operating results. We expect good results this year also. Allen is undertaking a major expansion program which will add 20,000 square feet to its plant. The cost for building and equipment is estimated at $700,000. This expansion will increase capacity by 50% and is expected to greatly improve operating efficiency.

Happy Air Exchangers (Canada) Ltd. produces heat exchangers for the chemical, petrochemical and power generation industries. Happy also had an excellent year in 1975 because of strength in its markets and is expected to show good results this year as well.



Large vessel for heavy water plant. (Allen Tank)

Engineered Products

Canada Forgings Limited
Welland, Ontario

El-Met-Parts Division of Toromont Industries Ltd.
Dundas, Ontario

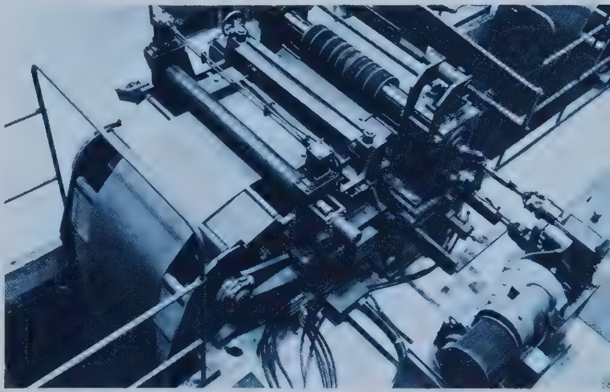
Viking Pump Company of Canada, Limited
Toronto, Ontario
Windsor, Ontario

Canada Forgings Limited, founded in 1912, has two plants, both located in Welland, Ontario. The heavy forge plant occupies 117,000 square feet on a four acre tract of land. Forgings weighing up to twenty tons are produced from equipment which includes three forging presses (500 tons, 600 tons and 1,000 tons), two steam hammers (5,000 pounds and 8,000 pounds), a ring rolling mill (the only one in Canada), heat treating facilities and a complementary heavy machine shop. Extensive quality control and metallurgical facilities are also maintained. The capacity and diversity of this open die plant's equipment is not matched by any independent forge plant in Canada and it enjoys a unique competitive position. Products include weldless rings and flanges to a diameter of 84 inches, end fittings, large shafts and hooks. Materials forged include a complete range of carbon, alloy and stainless steels.

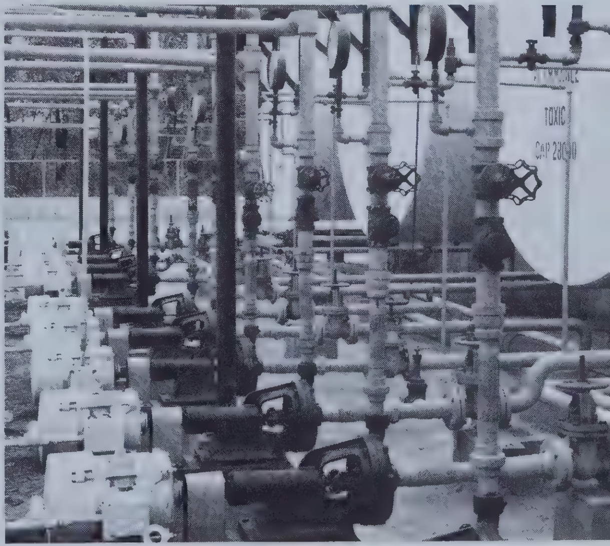
The drop forge plant occupies 60,000 square feet on a four acre tract of land. Forgings weighing up to 150 pounds are produced on equipment which includes steam and board drop hammers ranging from 1,200 to 10,000 pounds. Products made include truck parts, aircraft components, valve bodies and fittings.

The major marketing thrust has been to the nuclear and other energy-related fields where the company's specialized know-how, unusual equipment capabilities and reputation for quality and reliability have given it a strong competitive position. While 1976 operating results will be affected by recent deferrals and cutbacks in nuclear programs, the long range outlook for these markets is for substantial growth.

Toromont's El-Met-Parts Division is Canada's largest independent manufacturer of steel laminations and wound electrical cores for the electrical and electronic industries. These products are basic components of transformers, motors, and fluorescent and mercury lighting ballasts.



El-Met-Parts new slitting equipment.



Viking centrifugal pumps handling various liquid products from above ground storage tanks.

Sales and earnings for El-Met-Parts declined in 1975 as a result of cyclical weakness in the small appliance markets. In 1976, operations should benefit from the current recovery in these markets. In addition, El-Met-Parts has completed, at a cost of approximately $1,000,000, a new facility for slitting steel, which will not only provide vertical integration for El-Met-Parts' present products, but also allow the division to enter the fields of paper-free slitting and distributing of electrical steels.

Viking Pump Company of Canada, Limited is Canada's leading manufacturer of rotary gear pumps. Viking's products are used for the transfer of light to viscous liquids by the petroleum, chemical, industrial, marine and refrigeration industries.

In 1975, Viking's profits declined, but improved results are expected in 1976 with recovery in the company's markets. In addition, Viking has underway an extensive program of rebuilding its equipment and re-arranging its plant lay-out, which is expected to materially increase operating efficiency.

Manipulator operator removing a blank from heating furnace for rolling into a ring. (CanForge)

Building Products

F. B. McFarren Limited
Streetsville, Ontario

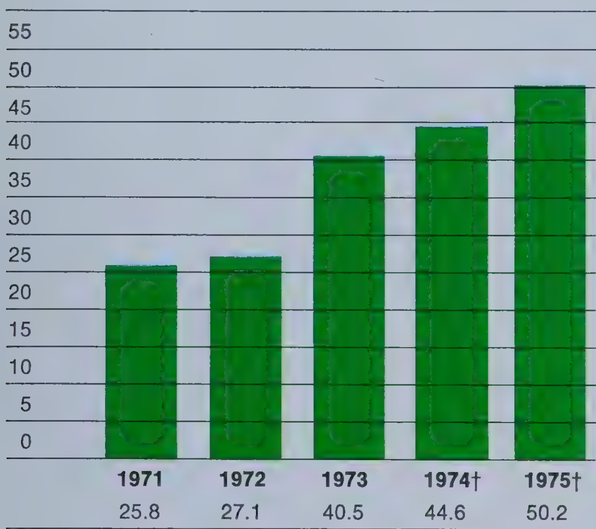
Toromont's subsidiary, F. B. McFarren Limited, manufactures specialty burned clay building and paving bricks for distribution in Ontario. The manufacturing plant and shale quarry are on a 60 acre site in Mississauga, Ontario.

In 1975, McFarren increased its profits over the prior year. Operating results in 1976 should benefit from the expected increase in housing starts. In addition, McFarren is converting four kilns to high velocity tempered air burning systems, which should result in substantial cost savings due to decreased usage of natural gas.

5 Year Review

Total Sales

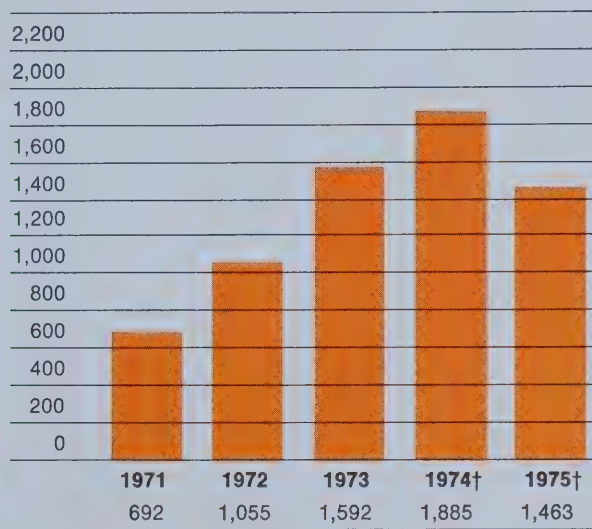
In millions of $



Net earnings

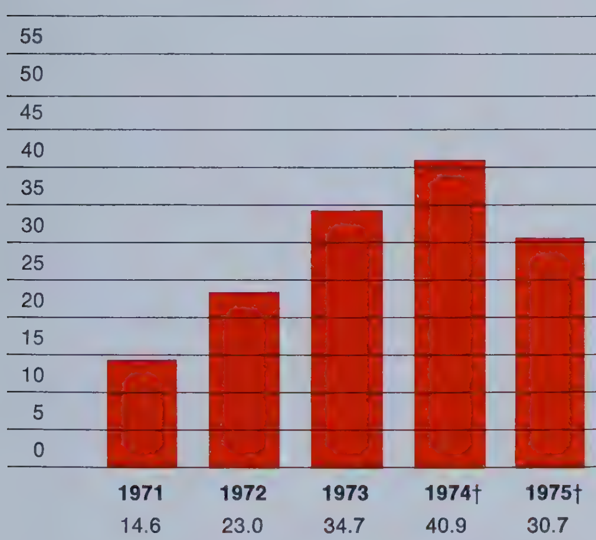
after tax

In thousands of $ Before extraordinary items



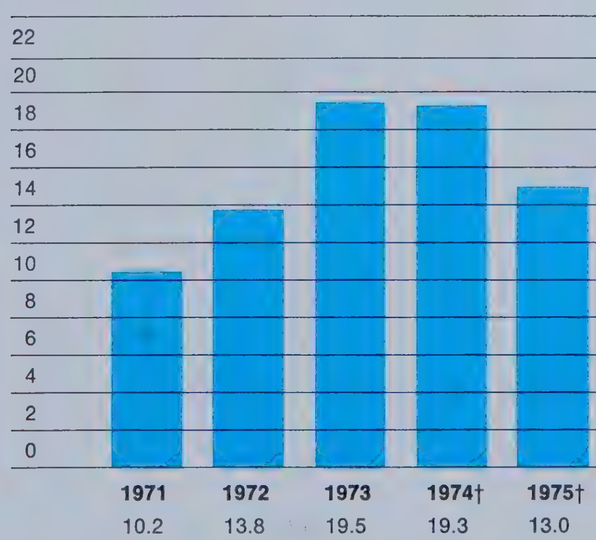
Earnings per common share

cents Before extraordinary items



Net earnings as a percentage of common shareholders' equity

% Before extraordinary items



† **From Continuing Operations**

TOROMONT
INDUSTRIES LTD.

(Incorporated under the
Canada Corporations Act)
and subsidiaries

Consolidated Balance Sheet

as at December 31, 1975
(with comparative figures for 1974)

	(Thousands of dollars) 1975	1974
Assets		
Current		
Cash	**$ 337**	$ 167
Accounts receivable	**11,938**	10,398
Notes receivable	**300**	—
Inventories	**9,176**	10,502
Prepaid expenses	**150**	174
	21,901	21,241
Notes receivable and other assets (Note 2)	**876**	1,314
Fixed		
Buildings and equipment, at cost	**11,914**	10,746
Less accumulated depreciation	**6,441**	5,982
	5,473	4,764
Land, at cost	**578**	503
	6,051	5,267
Goodwill (Note 8)	**3,101**	2,564
	$31,929	$30,386

On behalf of the Board

S. J. Sinclair, Director

R. A. Scoon, Director

	(Thousands of dollars) 1975	1974
Liabilities		
Current		
Bank indebtedness, secured	**$ 4,266**	$ 5,324
Accounts payable	**7,655**	7,250
Dividends payable	**240**	237
Billings in excess of costs on contracts in progress	**67**	1,241
Income taxes payable	**584**	469
Current portion of long-term debt	**974**	586
	13,786	15,107
Long-term debt not maturing within one year (Note 3)	**3,651**	2,606
Deferred income taxes	**736**	590
Minority interest in subsidiaries	**4**	184
	18,177	18,487
Shareholders' Equity		
Capital stock (Note 4)	**7,436**	7,243
Contributed surplus	**386**	386
Retained earnings	**5,930**	4,270
	13,752	11,899
	$31,929	$30,386

TOROMONT
INDUSTRIES LTD.
and subsidiaries

Consolidated Statement of Earnings

For the year ended December 31, 1975 (with comparative figures for 1974)	(Thousands of dollars) 1975	1974
Sales		
Industrial refrigeration	**$35,221**	$34,340
Engineered products	**13,721**	9,035
Building products	**1,295**	1,264
	50,237	44,639
Costs and expenses		
Cost of sales	**39,507**	33,699
Selling, general and administrative expenses	**7,381**	6,848
Interest on long-term debt	**304**	192
Other interest	**281**	374
	47,473	41,113
Earnings before the undernoted items	**2,764**	3,526
Provision for income taxes		
Current	**1,150**	1,620
Deferred	**150**	20
	1,300	1,640
Earnings from continuing operations before minority interest	**1,464**	1,886
Minority interest in earnings from continuing operations of subsidiaries	**1**	1
Net earnings from continuing operations	**1,463**	1,885
Discontinued subsidiary operations (Note 5b)		
Net earnings	**37**	153
Net gain on sale	**668**	—
	705	153
Net earnings for the year	**$ 2,168**	$ 2,038
Earnings per common share (Note 7)		
Continuing operations	**30.7¢**	40.9¢
Discontinued subsidiary operations:		
Net earnings	**.8**	3.4
Net gain on sale	**14.3**	—
Net earnings for the year	**45.8¢**	44.3¢

Consolidated Statement of Retained Earnings

For the year ended December 31, 1975
(with comparative figures for 1974)

	(Thousands of dollars) **1975**	1974
Balance at beginning of year	**$ 4,270**	$ 2,736
Net earnings for the year	**2,168**	2,038
	6,438	4,774
Dividends declared		
Preferred	**32**	58
Common, 10.0¢ per share (1974 – 10.0¢ per share)	**476**	446
	508	504
Balance at end of year	**$ 5,930**	$ 4,270

Auditors' Report

The Shareholders,
Toromont Industries Ltd.

We have examined the consolidated balance sheet of Toromont Industries Ltd. and its subsidiaries as at December 31, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Company and its subsidiaries as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.
Chartered Accountants

Toronto, Ontario,
March 1, 1976.

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1975
(with comparative figures for 1974)

		(Thousands of dollars) 1975	1974
Source of funds			
From operations			
Net earnings from continuing operations		$ 1,463	$ 1,885
Net earnings from discontinued operations		37	153
		1,500	2,038
Add adjustments for charges not involving the use of funds			
Depreciation		424	478
Deferred income taxes		150	81
Income tax recoveries applied against goodwill (Note 8)		—	149
Deferred pension charges		—	87
		2,074	2,833
Increases in long-term debt		1,148	89
Issue of capital stock		193	—
Proceeds from sale of subsidiaries (Note 5b)			
Net proceeds from sale	$ 2,714		
Working capital reduction	962		
		1,752	—
Net change in notes receivable and other assets		115	—
		5,282	2,922
Application of funds			
Additions to fixed assets		1,553	1,447
Goodwill on acquisitions of shares of subsidiaries		32	25
Dividends declared		508	504
Redemption of preference shares of a subsidiary		—	36
Acquisition of subsidiary (Note 5a)			
Cost of shares	$ 3,063		
Working capital acquired	1,855		
		1,208	—
Sundry		—	3
		3,301	2,015
Increase in working capital		1,981	907
Working capital at beginning of year		6,134	5,227
Working capital at end of year		$ 8,115	$ 6,134

Notes to Consolidated Financial Statements

December 31, 1975

1. Summary of significant accounting policies

(a) Basis of consolidation

The accompanying financial statements consolidate the accounts of all subsidiary companies which, with the exception of CIMCO Limited, are wholly owned. Toromont Industries Ltd. owns 99.9% and 98.1% respectively of the common and Class "A" shares of CIMCO Limited.

New subsidiaries are consolidated from the effective date of their acquisition. The results of operations of subsidiaries that are sold are disclosed separately in the consolidated statement of earnings as discontinued operations.

(b) Inventories

Inventories of raw materials, work in progress and finished goods are valued at the lower of cost (principally on the first-in, first-out method) and net realizable value.

(c) Foreign exchange

The accounts of United States subsidiaries have been translated into Canadian dollars at par, which approximates the rate of exchange prevailing during the year.

(d) Fixed assets and depreciation

Additions to fixed assets are recorded at cost. The assets of the Industrial Refrigeration companies are being depreciated on the straight-line basis and those of the remaining companies substantially on the diminishing balance basis, at rates which are designed to write off the assets over their estimated useful lives.

(e) Contracting activities

The companies engaged in contracting activities record sales and cost of sales on design and installation contracts on the completed contract method, based on substantial technical completion.

(f) Goodwill

Goodwill arising on the acquisition of subsidiaries and originally recorded at cost, is considered to have continuing value in excess of book value and accordingly is not presently being amortized, except as indicated in Note 8.

(g) Income taxes

The companies follow the tax allocation method of providing for income taxes. Under this method, timing differences between reported and taxable income result in deferred taxes.

(h) Pension plans

Pension plans maintained by the Company and its subsidiaries are fully funded with the exception of the Company's newly acquired subsidiary whose past service costs are being funded according to the actuarial requirements. Current and past service costs are expensed annually.

2. Notes receivable and other assets

	1975	1974
Notes receivable employees		
Incentive stock purchase plan (Note 4c)		
Officers	**$ 396,000**	$ 316,000
Other	**351,000**	295,000
Loans	**24,000**	24,000
Bills and mortgages not currently due	**—**	153,000
Cash surrender value of life insurance policies	**52,000**	83,000
Investments, at cost	**—**	384,000
Other items	**53,000**	59,000
	$ 876,000	$1,314,000

3. Long-term debt

	1975	1974
Term bank loans (secured)	**$4,083,000**	$2,440,000
5% unsecured debentures, repayable $6,490 quarterly	**—**	128,000
Mortgage loans, repayable in equal monthly instalments with interest at 6½% to 8¾%, maturing 1981	**169,000**	191,000
6½% convertible notes, maturing $30,000 annually (Note 4d)	**90,000**	120,000
Non-interest bearing notes maturing in two equal instalments December 31, 1976 and 1977	**167,000**	167,000
Sundry loans	**116,000**	146,000
	4,625,000	3,192,000
Less instalments due within one year	**974,000**	586,000
	$3,651,000	$2,606,000

4. Capital stock

(a) The authorized and issued shares of capital stock are as follows:

		1975	1974
Authorized			
658,425	6½ % cumulative redeemable convertible preferred shares, par value $10 each, issuable in series		
10,000,000	common shares without par value		
Issued and outstanding			
8,425	preferred shares, Series "A" (1974 - 89,425 shares)	**$ 84,000**	$ 894,000
4,758,969	common shares (1974 - 4,466,519 shares)	**7,352,000**	6,349,000
		$7,436,000	$7,243,000

The preferred shares, Series "A", are convertible into common shares of the Company as follows:

Prior to July 14, 1975 – 5 common shares for 2 preferred shares

July 15, 1975 to July 14, 1979 – 2 common shares for 1 preferred share

The preferred shares are redeemable at par value plus a premium of 3% until July 14, 1977, 2% to July 14, 1980 and 1% thereafter.

(b) Under the conversion privileges granted to preferred shareholders, 81,000 preferred shares, Series "A", were converted to 202,450 common shares during the year.

(c) During the year, additional common shares were issued under the Company's Incentive Stock Purchase Plan for executives of the Company and its subsidiaries, as follows:

75,000 shares for $2.10 per share	$158,000
15,000 shares for $2.35 per share	35,000
90,000	$193,000

The prices per share shown above were the market prices at the time of issue. The consideration for the issue of these shares is evidenced by promissory notes, repayable in varying amounts annually until 1984 (Note 2).

(d) At December 31, 1975 common shares of the Company have been reserved for future issuance, as follows:

	Shares
Under conversion privileges granted to the holders of preferred shares, Series "A" – maximum common shares issuable	16,850
Under conversion privileges related to promissory notes, which are convertible into common shares until December 31, 1977 at $6.00 to $7.00 per share	25,796
Under the Incentive Stock Purchase Plan	36,250
Total	78,896

5. Subsidiary operations

(a) Acquisition

Under an agreement effective September 1, 1975 the Company acquired 91.2% of the outstanding capital stock of Canada Forgings Limited, a company in the steel forgings business, and has taken steps to acquire the balance of the outstanding shares under the provisions of Sections 135 and 136 of the Canada Corporations Act. At December 31, 1975 the Company had acquired substantially all of the outstanding capital stock and consequently the acquisition has been reflected in the accounts, using the purchase method, as a completed transaction effective September 1, 1975. The details of the transaction are as follows:

Tangible assets acquired at book values		$6,280,000
Liabilities assumed		3,423,000
		2,857,000
Allocation of excess of cost of investment over the net book value of assets acquired		
Land	$ 69,000	
Buildings	137,000	
		206,000
Purchase price		$3,063,000

The allocation of the excess of the cost of the investment over the net book value of assets acquired has been done on the basis of an appraisal. The portion allocated to buildings will be amortized over their remaining useful lives.

(b) Disposals

During the year the Company sold its investment in two subsidiaries and the balance of its investment related to a previously owned subsidiary. Clare Brothers Limited was sold effective January 1, 1975 and Lloyd-Truax Limited effective September 30, 1975.

The details of the transactions are as follows:

Net proceeds	$2,751,000
Less net earnings from discontinued operations	37,000
	2,714,000
Net book value of investments	2,046,000
Net gain on sale	$ 668,000

6. Statutory information

In 1975 the Company had 11 directors (1974 – 11) and 5 officers (1974 – 3). The aggregate remuneration paid to directors was $44,000 (1974 – $12,000) and to officers was $329,000 (1974 – $262,000). Two of the officers are also directors.

7. Earnings per common share

Earnings per share are calculated based upon the weighted average number of shares outstanding during the year. Fully diluted earnings per common share have not been shown, as the dilutive effect would not be material in either year.

8. Income taxes and goodwill

At the date of acquisition of Lewis Refrigeration Co., that company and its subsidiaries had available losses for income tax purposes. The tax benefit from these losses is being credited to goodwill as realized. The amount realized and credited to goodwill in 1975 was Nil and in 1974 was $149,000. As at December 31, 1975 this subsidiary had a tax loss carry forward of approximately $900,000.

9. Comparative operating results

The 1974 statement of earnings has been restated to remove sales of $11,358,000, cost of sales of $9,093,000 and corresponding expenses and income taxes relating to Clare Brothers Limited and Lloyd-Truax Limited in order to segregate the net profit of $153,000 from discontinued operations.

10. Legal actions

The Company has instituted legal actions against certain parties involved in the sale of the common shares of CIMCO Limited to Toromont in April, 1969, claiming damages of approximately $3,000,000. A judgment in favour of one of the defendants is being appealed by Toromont.

11. Anti-Inflation Legislation

The Company and its Canadian subsidiaries are subject to the Federal Government's Anti-Inflation Legislation which became effective October 14, 1975. This Legislation limits increases in prices, profits and compensation. While there are some uncertainties as to the interpretation of the Legislation, management is of the opinion that the Company and its subsidiaries have no material liability as a result of the Anti-Inflation Legislation.

The Anti-Inflation Legislation restricts the distribution of retained earnings in the form of dividends until October 13, 1976. As at December 31, 1975, retained earnings of $5,685,000 are restricted from distribution in the form of dividends. The restrictions that will apply to dividends subsequent to October 13, 1976 have not yet been announced by the Government.

TOROMONT
INDUSTRIES LTD.

Corporate Directory

The Board of Directors

P. F. Fenton, Jr.,
Lennoxville, Quebec
Chairman, Division of Business Administration Bishops' University

D. E. Gillespie, Los Angeles, Ca.
Chief Executive Officer Glaser Brothers

N. B. Ivory, Montreal
President Pembroke Management Ltd.

B. B. Lockwood, Toronto
Partner Blake, Cassels & Graydon

A. Marcil, Montreal
Chief Executive Officer Montreal City and District Savings Bank

W. A. McKenzie, London, Ont.
President Admac Holdings Ltd.

S. R. Rudd, Toronto
Vice-President and Director agf Toronto Investment Management Inc.

R. A. Scoon, Toronto
President Toromont Industries Ltd.

R. A. Sinclair, Toronto
Vice-President, Marketing H. A. Sheldon Inc.

S. J. Sinclair, Toronto
Chairman of the Board and Chief Executive Officer Toromont Industries Ltd.

N. G. Van Nest, Toronto
Chief Executive Officer Triarch Corporation Limited

Officers of the Company

S. J. Sinclair
Chairman of the Board and Chief Executive Officer

R. A. Scoon
President

A. L. Fagan, Jr.
Vice-President, Finance and Secretary

Officers of Subsidiaries

J. W. Fraser
President
Canada Forgings Limited
P.O. Box 308
Welland, Ontario

N. J. Lucas
President
CIMCO Limited
65 Villiers Street
Toronto, Ontario

J. D. Ortt
President
Viking Pump Company of Canada, Limited
P.O. Box 398
Windsor, Ontario

J. Papakyriakou
President
El-Met-Parts Division of Toromont Industries Ltd.
47 Head Street
Dundas, Ontario

R. A. Scoon
President
Allen Tank Limited
Happy Air Exchangers (Canada) Ltd.
65 Villiers Street
Toronto, Ontario

J. A. Simpson
President
F. B. McFarren Limited
Box 299
Streetsville, Ontario

S. J. Sinclair
President
Lewis Refrigeration Co.
P.O. Box 167
Woodinville, Wa. 98072

Head Office

65 Villiers Street
Toronto, Ontario
M5A 3S1

General Counsel

Blake, Cassels & Graydon
Toronto, Ontario

Miller, Anderson, Nash, Yerke & Wiener
Portland, Oregon

Auditors

Touche Ross & Co.
Chartered Accountants

Transfer Agent and Registrar

Crown Trust Company
Toronto and Montreal

Common Shares

Listed on the Toronto Stock Exchange and Montreal Stock Exchange

Bankers

The Toronto-Dominion Bank
The Mercantile Bank of Canada